



DELAINE EASTIN
State Superintendent of Public Instruction

CALIFORNIA
DEPARTMENT
OF
EDUCATION

721 Capitol Mall

P. O. Box 944272

Sacramento, CA

94244-2720

MANAGEMENT BULLETIN 02-01

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To: County and District Superintendents
Charter School Administrators

Attention: County and District Chief Business Officers

From: Susan Lange, Deputy Superintendent
Finance, Technology, and Administration

Subject: **GOVERNOR'S BUDGET FOR FISCAL YEAR 2002-03**

On Thursday, January 10, 2002, Governor Gray Davis presented his budget proposal for the 2002-03 fiscal year. In the interest of providing information on the budget as quickly as possible, this management bulletin focuses on major highlights. Copies of this bulletin, as well as future budget-related documents, will be available through the California Department of Education's (CDE) web site (www.cde.ca.gov/fiscal/budgetact/). The budget itself is available through the Department of Finance's web site (www.dof.ca.gov/).

Budget Overview

The budget projects a funding gap of \$12 billion in 2002-03. This funding gap represents the difference between projected revenues and projected spending over the two-year period ending with fiscal year 2002-03. The gap is the result of a recession affecting the national economy, the terrorist attacks in September, and a steep decline in the stock market. The budget projects that the economy will begin to recover in the middle of the fiscal year. Economic recovery and proposed revenue transfers are projected to result in growth in General Fund revenues of 7.9 percent in 2001-02 and 2.3 percent in 2002-03. In comparison, General Fund revenues declined by 0.7 percent in 2000-01.

Current Year Changes

Under Proposition 98, the revenue forecast generates \$39.3 billion in state and local funds available in 2001-02 for ongoing program purposes in K-12 schools, other educational agencies, and community colleges. This is based on "Test 3" under Proposition 98. As part of the Proposition 98 calculation, the Constitution allows the state to provide a lower funding level (Test 3) than otherwise required in years when personal income growth exceeds General Fund revenue growth. The 2001-02 spending level assumed in the budget is \$45 billion, which is \$5.7 billion higher than the Proposition 98 guarantee.

The budget allocates \$40 billion of the \$45 billion in current-year Proposition 98 spending to K–12 education. The K–12 spending level reflected in the budget assumes that the Legislature will approve proposals for spending reductions submitted by the Governor in November. The effect of these proposals would be to reduce Proposition 98 spending by \$440.7 million. The total effect of the November budget reduction proposals on K–12 education is \$837.5 million, including \$396.8 million in proposals affecting one-time funds that do not count in the Proposition 98 figures. (The November package actually proposed \$843.5 million in spending reductions but one of the proposals was modified prior to inclusion in the budget.) Table 1 in the Appendix provides details of the proposed current-year reductions.

Proposal for 2002-03

For the budget year, the revenue forecast generates \$46 billion in state and local funds for K–12 schools, other educational agencies, and community colleges, based on Test 2 under Proposition 98. The Governor proposes to fully fund Proposition 98. The \$46 billion is an increase of \$1 billion above the revised 2001-02 level.

The Governor proposes allocating \$41.2 billion to K–12 schools in 2002-03, which is an increase of \$1.2 billion above the revised 2001-02 level. On a per-ADA basis, K–12 Proposition 98 funding increases from \$6,922 to \$7,058, or 2 percent. Table 2 in the Appendix provides details of the proposed 2002-03 funding changes. Table 3 in the Appendix places Proposition 98 funding in the context of funding of \$53.9 billion from all sources for K–12 education in California.

The budget includes full funding for statutory enrollment growth and a 2.15 percent cost-of-living adjustment (COLA).

Major Budget Proposals

The news in the 2002-03 budget is primarily in the area of program reductions rather than increases. The major current-year reductions proposed in November include:

- \$250 million for energy-related costs and other one-time purposes.
- \$197 million to implement a new program of grants to high priority schools.
- \$67.8 million for a categorical programs per ADA allocation.
- \$50 million for certificated staff performance awards.
- \$50 million for peer assistance and review.
- \$40 million for revenue limit equalization.
- \$35 million to “buy out” a portion of the PERS reduction to revenue limits.
- \$38 million for Healthy Start programs.
- \$29.7 million to expand before- and after-school programs.

The budget proposes to continue most of the proposed current-year reductions in 2002-03. Two exceptions are funding for high priority schools grants and funds to expand before- and after-school programs. In addition, the budget proposes program reductions in 2002-03 including:

- \$43 million for a 10 percent reduction in independent study.
- \$36 million to eliminate CalWORKs adult education.
- \$21.6 million to eliminate funding for school development plans and resource consortia.
- \$14.5 million to reflect a proposal to suspend operation of several mandates.

The budget proposes to consolidate and restructure funding of instructional materials. Overall funding would increase by \$18.7 million. The net increase consists of (1) elimination of appropriations for instructional materials for grades K–12, school library materials, and classroom library materials and (2) one-time funding for textbooks, school and classroom libraries, and science laboratory materials. The budget proposes to continue funding of \$250 million for standards-based materials as an ongoing appropriation.

Other major budget proposals include:

- A net increase of \$106.7 million for child development programs.
- An increase of \$75 million for before- and after-school programs (\$29.7 million for the program expansion deferred from the current year plus \$45.3 in funds redirected from child development programs).
- An increase of \$30 million in funding for mathematics and reading professional development. This program was funded at \$80 million in the current year from one-time funds.
- A net increase of \$29.6 million to continue funding for three cohorts of schools participating in the Immediate Intervention/Under Performing Schools Program (II/USP).

The budget does not propose to fund a fourth cohort of II/USP schools or the AB 25 kindergarten readiness pilot project estimated to cost \$13.9 million. Also, it does not fund \$75.3 million in ongoing costs for mandates that were funded in the current year from one-time funds. Most of the \$75.3 million is for the school bus safety mandate, which had been funded below projected costs pending a report on the program (due in March 2002) by the State Auditor.

School Apportionments

The budget proposes to fully fund school district and county office of education apportionments. It includes full funding for statutory enrollment growth and a 2.15 percent cost-of-living adjustment (COLA). The estimated 2002-03 COLA amounts for school districts are as follows:

Elementary districts	\$96 per unit of ADA
High school districts	\$116 per unit of ADA
Unified districts	\$100 per unit of ADA

The budget proposes to eliminate current-year funding for equalization and for a partial buyout of the PERS reduction to revenue limits, and does not propose funding for these programs in 2002-03.

Special Education

The budget proposes to fully fund enrollment growth and a 2.15 percent COLA. The budget reflects \$112.3 million of new federal funds, which offset General Fund program costs.

Categorical Programs

The budget provides increases of varying amounts for growth and a 2.15 percent COLA. The budget also continues to allow funding shifts (“20 percent out” and “25 percent in”) among programs formerly budgeted in the mega-item.

The budget proposes to revert \$67.8 million in current-year funding for the categorical programs per-ADA allocations, and does not propose to restore this program in 2002-03.

Child Development

The budget proposes a package of child care policy reform proposals involving, among other things, the phase-out of CalWORKs Stage 3 child care and changes to fees charged to families, income eligibility limits, and provider reimbursement rates. In connection with the proposals, the budget proposes:

- A reduction \$68.8 million in funding for general child care.
- An increase of \$417.5 million (all funds) for alternative payment programs.
- A reduction of \$63.7 million (all funds) in CalWORKs Stage 2 child care.
- A reduction of \$174.4 million (all funds) in CalWORKs Stage 3 child care.

(These dollar amounts do not tie to information provided in the overview tables, because these amounts reflect changes in federal funds and carryover funds, not just the General Fund appropriation.)

Finally, the budget proposes to revert \$42 million from the Child Care Facilities Revolving Fund.

School Facilities

The budget increases the K–12 deferred maintenance program by \$26.6 million, including funding from excess loan repayment funds and school site utilization funds. These funds will fully fund the one-half of 1 percent state match for 2002-03.

The Governor is also proposing the placement of bond measures on the ballot in each of the 2002, 2004, and 2006 statewide elections. Passage of these measures would authorize a total of \$30 billion (\$10 billion in each election) in General Obligation School Bonds for school facilities. Eighty percent of the proceeds would be for K–12 school facilities, while the remainder would fund facilities for higher education.

State Teachers Retirement System (STRS)

The budget proposes to defer the state's contributions to STRS in exchange for providing an enhanced level of teacher retirement benefits. The budget proposal would reduce General Fund contributions by \$96.2 million in 2001-02, \$411.7 million in 2002-03, and \$440.5 million in 2003-04. Additional General Fund contributions in subsequent years would offset the temporary reduction. The Governor has stated that he will reconsider this proposal if the state's fiscal condition improves.

Accountability

The budget proposes to defer implementation of the High Priority Schools Grant Program until 2002-03, saving \$197 million in the current year. The budget also proposes to reduce funding for certificated staff performance awards by \$50 million. The budget proposes to continue II/USP funding for the first three cohorts of schools, but does not propose to fund a fourth cohort.

Staff Development and Teaching

The budget proposes \$130 million (\$87.1 million from one-time funds) for mathematics and reading professional development. The current-year funding level is \$80 million from one-time funds. The budget proposes to fund the principal training program at \$7.5 million from one-time funds, a reduction from the current-year level of \$15 million (also from one-time funds).

Other budget adjustments include reductions of (1) \$50 million in the Peer Assistance and Review Program and (2) \$20 million in the Beginning Teacher Support and Assessment Program. The budget includes a \$20 million reduction to the Teaching as a Priority Block Grant for the current year only.

Adult Education—CalWORKs

The budget proposes to delete \$36 million for services provided by adult education programs and Regional Occupational Centers and Programs (ROC/Ps) to CalWORKs recipients. According to the budget, (1) these funds are no longer necessary to ensure that the state meets federal maintenance-of-effort requirements and (2) CalWORKs recipients can receive services from adult education programs and ROC/Ps funded through different sources or from county employment and training services.

Other Programs

The budget proposes to eliminate \$38 million in funding for the Healthy Start program in the current year, and all funding—\$39 million—in the budget year. The budget proposes to defer expansion of before-and after-school programs until the budget year, for a savings of \$29.7 million in the current year. The budget augments before- and after-school programs by an additional \$45.3 million in 2002-03, using freed-up child development funding.

The budget also proposes a 10 percent, non-waivable reduction in revenue limit funding for independent study in all public, non-charter K–12 schools. This proposal is consistent with the reduction, by up to 20 percent, in funding for independent study in charter schools approved last year in Chapter 892, Statutes of 2001 (SB 740).

Next Steps in the Process

The Governor’s Budget represents the first in a series of steps that will be taken to arrive at a state budget for 2002-03. The Governor’s proposals for the current year will be converted to bills and be considered immediately in a special legislative session. The budget for 2002-03 will be converted into budget bills (AB 1777 and SB 1261) and legislative hearings should begin in March. In May, the Governor’s Department of Finance will issue its traditional “May Revision” of population, revenue, and expenditure projections, and growth and COLA estimates are subject to change at that time. The budget bills, having been amended in each house, will be reconciled by a joint conference committee and should be passed to the Governor in late June. Upon receiving the final Budget Bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2002.

Questions regarding this bulletin should be directed to the Fiscal Policy Office of the School Fiscal Services Division at (916) 323-8068.

NOTICE:

The guidance in this bulletin is not binding on local education agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this bulletin is exemplary, and compliance with it is not mandatory. (See Education Code Section 33308.5.)

APPENDIX

Table 1
Current Year Budget Reductions
(in thousands)

One-time funds	
Energy assistance	\$250,000
Categorical programs per ADA allocation	67,831
Revenue limit equalization	40,000
PERS offset	35,000
High tech high schools	4,000
Subtotal	\$396,831
Ongoing funds	
High priority schools grant program	\$197,000
Certificated staff performance awards	50,000
Peer assistance and review	50,000
Healthy start	38,000
Before- and after-school expansion	29,700
Teaching as a priority block grant	20,000
BTSA	20,000
Digital high school	15,000
Ninth grade class size reduction	10,000
Charter school facilities grants	5,000
National Board for Professional Teaching Standards certification	5,000
High school coach training	1,000
Subtotal	\$440,700
TOTAL	\$837,531

Table 2
2002-03 Budget Changes
(in thousands)

	Ongoing Funds	One-time Funds
Cost-of-living adjustment	\$843,274	
Growth	437,691	
Restore current-year program reductions		
High priority schools grant program	197,000	
Before- and after-school expansion	29,700	
Teaching as a priority block grant	20,000	
Charter school facilities grants	5,000	
High tech high schools		4,000
Program reductions		
Independent study 10% reduction	-43,000	
CalWORKs adult education	-36,000	
School development plans and resource consortia	-21,622	
Alternative credential and pre-interns	-6,200	
Demonstration programs in intensive instruction	-6,097	
College preparation partnership program	-5,000	
Paraprofessional training	-4,000	
Healthy Start	-1,000	
California mathematics initiative	-600	
Instructional materials proposal		
Continue existing funding	(250,000)	
Restructure existing appropriations	-356,340	375,000
Other proposals		
Child development proposals	106,700	
Before- and after-school expansion	45,300	
II/USP	29,585	
Deferred maintenance	26,606	
Mathematics and reading professional development	22,928	87,072
Mandate suspension	-14,451	
Special education federal funding	-112,282	
CSIS		15,500
Principal training		7,500
Baseline and technical	65,391	
TOTAL	\$1,222,583	\$489,072

Table 3
Funding for K–12 Education
All Sources and Proposition 98
(in millions)

	All Sources	Guaranteed by Proposition 98
State General Fund	\$31,316	\$28,582
State lottery	813	--
Other state funds	112	--
Federal funds	5,480	--
Local property tax	12,747	12,627
Local debt service tax	612	--
Other local funds	2,843	--
TOTALS	\$53,922	\$41,209

Notes: K–12 education funding under the “All Sources” category includes CDE state operations; State Special Schools; state school facilities bond repayments; and contributions to STRS, State Library, and Commission on Teacher Credentialing. Totals may not add due to rounding.